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# PREREQUISITES AND PRINCIPLES OF PLANNED ECONOMIC MANAGEMENT

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# Prerequisites and principles of planned economic management.

by

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(1) More or less successful attempts have been made in most countries of the world in recent years to influence the development of economy on the basis of an economic plan. In socialist countries plans are drawn up that do not remain at the level of prognosis, but that actually control the entire economic process and according to which the development of economy takes its course.

(2) The purpose of this paper is to submit basic information about the manner of planned control of economy as applied in the Czechoslovak Socialist Republic, which in a period of more than 15 years of planned economy achieved great success in the development of her economy and has thus taken her place among the ten industrially most developed countries of the world.

## Presuppositions of planned control and its effectiveness.

(3) Effective planned control of a country s economy as a whole is indissolubly linked with central decisions on all basic questions of development ef economy as are proportions in the development of the various branches and sectors, the extent of investments with relations to the increase in consumption and their distribution among the various branches, the distribution of man power, the participation in the international division of labour, financial means to ensure the entire economic process, etc. A presupposition for the central decisions on the development of economy is naturally the concentration in the hands of the state of all material and financial resources created in the economy. This concentration can only be achieved really effectively when the decisive sectors of economy are owned by the state. Our experience has shown that it was possible to start planned control of the entire national economy only after the nationalisation of the basic branches of industry, banks, transport, wholesale and foreign trade. And it was found that the greater the share of state - owned economy in the nation's economy, the more effective planned control was and the better the fulfilment of the plans.

(4) Planned control, the drawing up of plans and their realisation cannot be the matter of only a central planning organ. The determination of a plan ensuring the quick development of national economy and its fulfilment depend on the active participation of all enterprises and economic organisations and in particular of the wide masses of the working people. This can be achieved only when the plans by their aim and direction fully correspond with the interests of the working people, i.e. a speedy and lasting increase of their material and cultural standard. Thus, a further presupposition of effective planned control is the agreement between the aims of planning and the interests of the working people. In the Czechoslovak Socialist Republic just as in the other socialist countries where this agreement of interests is ensured by the social ownership of the means of production millions of working people share in the planning, which is the foundation of its great effectiveness. The fundamental agreement of every worker s individual interests in the rise of the living standard with the interests of society as a whole in the development of the nation s economy is simultaneously ensured by various forms of material interests, in particular a system of wages and bonuses for the successful fulfilling of the tasks set out by the plan.

(5) Indirect methods of control, regulating the economic activity of enterprises and guiding them towards the fulfilment of the plan s aims apart from controlling the direct tasks set out by the plan, are also based on using the workers material interests. The main instruments of indirect control are bonuses, prices, interests, fines for not fulfilling delivery agreements, etc.

(6) A further presupposition of planned control is the creation of a unified organisation of management of the entire nation s economy from top to bottom, making possible the most effective manner of drawing up the plan and its realisation. What such an organisation should look like, according to our experience, is stated in the next part of this paper.

(7) The prerequisite for planned control is a state monopoly on foreign trade which makes possible to direct import and export according to plan and in agreement with the needs of the planned development of the nation s economy and to regulate uniformly trade policy with the various countries. In Czechoslovakia it has been found satisfactory to carry out foreign trade through special organisations, which makes possible the isolation of production and the home market from the uncontrolled fluctuations of the world capitalist market.

(8) A further demand of the effective planning of economy is the creation of a unified organisation and central administration of the financial and credit system in such a way as to make it serve the interests of the plan and support its fulfilment. The financial system will be discussed in greater detail in connection with the organisation of planned control.

(9) Prices play an important part in planned management, whether as a gauge for the quantity of work done, an instrument to express the total proportions of economy or as a

stimulant acting on the increase or decrease of a certain consumption. If the prices are to fulfil these functions the establishment of unified state-controlled prices is essential.

(10) One of th most important instruments of planned control are wages. The planning of wages / besides price control and the control of the production of consumer goods / ensures agreement between the population s demand and the amount of consumer goods on the market and adds to the worker s material interest in the increase of productivity of labour, the increase in qualification and the priority completion of work most important for the development of economy. The presupposition for this is, however, the central regulation of the wage policy by the state.

(11) A very important condition for planned control is the establishment of a unified statistic and accountancy system at all stages of management. This system must ensure an exact and reliable survey of all aspects of the economic process both within the enterprise as well as in the entire economy; it must put at the disposal of the controlling organs information about the state of the economy that is necessary for the drawing up of the plan and information on the fulfilment of all tasks set by the economic plan. This is the basis for a continuous control of the fulfilment of the plan.

(12) These presuppositions for the effectiveness of planned control of the nation s economy are fully realised in Czechoslovakia. The organisation of control and the system of planning in Czechoslovakia are based on these presuppositions, as will be shown below.

Organisation of planned administration of national economy.

(13) Planned control of a nation s economy makes certain demands on the organisational structure of the entire economy.

(14) First of all the existence of a central planning organ is essential which as the organ of the government and in accordance with its instructions prepares drafts of the state economic plans, submits them to the government for approval and controls their fulfilment. The economic plan is not, as has already been stated, the only instrument of the economic policy of the state, even though it is the main and decisive instrument. If, as it is essential in planned economy, all instruments through which the state controls economy are to create one unit, it is necessary to coordinate wages, prices and all other measures of wider economic range with the aims and possibilities of the economic plan and to subordinate them to the interests of the plan. This is why it has proved expedient that the central planning organ is also the centre coordinating all economic control. This naturally does not mean, as will be seen from further expositions, that the central planning organ should be the only organ of the government for all questions of administering economy. The planning of the economic development is not a matter exclusively of this planning organ.

If the economy is to have a really planned character it is essential that planning should become a feature of every controlling activity, that every economic organisation setting out from the all-state plan, should plan its own development. The central planning organ is in a certain sense an auxiliary organ of the government and thus cannot itself decide on the administration of economy. Its proposals have always the character of recommendations to the government and become government measures only after approval. It is therefore necessary that the planning organ should not replace the government in the management of the economy and thus become am "economic government" which would lead to a harmful split between decisions on the economic development of the country and the political administration of the state.

(15) In the Czechoslovak Socialist Republic there exists such a central planning organ in the form of the State Planning Commission composed on the one hand of a special commission headed by a chairman who is always a member of the government, on the other hand of the permanent staff of the State Planning Commission. In the interests of close cooperation between the State Planning Commission and the other central organs and the increase of their responsibility in the drawing up of the whole economic plan it is expedient that the members of the State Planning Commission should be ministers or heads of the main economic organs; other members of the commission are outstanding representatives of economic and scientific life and the foremost employees of the permanent staff of the State Planning Commission.

(16) It is the main task of the permanent staff of the State Planning Commission tc prepare together with the help of the other economic and scientific organs the draft of a reciprocally interconnected and balanced economic plan. This extremely exacting work demands that a sufficient number of highly qualified economists, technicians and other experts should be concentrated among the permanent staff of the State Planning Commission, having apart from the necessary expert knowledge and organisational capabilites also high moral qualities and being fully devoted to the cause of economic development of their country.

(17) To have a sufficient amount of objective information on the economic development of the country and on the fulfilment of the approved plan, it is essential to build up a state statistic organisation controlled by the central statistic organ, which investigates, verifies and compiles this information. It is hardly necessary to stress that full harmonisation in planning and statistical work is necessary.

(18) A further organ of the government for the planned administration of economy is the Ministry of Finance. Its task is to submit the budget to the government and to control other organisations of the financial system. In a planned economy the state budget has a special character arising out of its dependence on the economic plan; it is a certain financial reflection of the material proportions of the economic plan. This is why close interconnection between the plan and budget is essential.

(19) A further link in the financial system of Czechoslovakia is the State Bank, which is the cash, accountancy and credit centre for all enterprises and organisations, issues money and carries out financial operations with foreign countries. Branch offices of the State Bank are in constant contact with the various enterprises and through financial means influence the fulfilment of the tasks set by the plan, the keeping of planning and financial discipline in the enterprises. Part of the financial system in the Czechoslovak Socialist Republic are further the State Savings Bank, which accumulates the savings of the population and grants loans to the inhabitants and the State Insurance as the only insurance institution in the state.

(20) For the solution of some basic questions of economic policy special commissions or committees are established by the government, composed of chosen ministers and leading workers from various central organs and equipped with the necessary number of experts. These commissions or committees are established in Czechoslovakia for instance to supervise the development of science and technique, wage questions, price control, etc..

(21) All organs mentioned so far are in the nature of objective government organs carrying out control of a certain section of economy, but as a rule they do not directly control any economic organisations / enterprises /. Enterprises and all other economic organisations are controlled by the government / with the aid of the above mentioned objective organs / either through some ministries responsible for a special sector of production or through regional organs of state power / in Czechoslovakia these regional organs are the regional, district or local national committees / . In Czechoslovak conditions it was found expedient that sectors with a high concentration of production, where enterprises ensure the covering of the needs of the entire state or of several regions, should be subordinated to an all-state organ - a ministry - whilst sectors whose enterprises are organised in such a way as always to satisfy only the need of their region are more expediently subordinated to the national committees. Throughout, however, the economic plan must ensure a proportional development with regard to the whole state in the regionally controlled sectors, whilst in the departmentally controlled sectors the effective development from the point of view of their regional placing must be borne in mind. Only in this way is it possible for the national economy to develop proportionally as one irrespective of the manner of control of the various sectors.

(22) National Committees which are elected by the population of the respective region are not only the controlling organs of these directly subordinated enterprises, but they also look after the complex development of their region and carry out a number of other functions appertaining to the local organs of state power.

(23) There are at the present time ten ministries controlling production enterprises in Czechoslovakia, seven of those in industry.

(24) The basic economic units in Czechoslovakia are enterprises. Enterprises are usual-

ly organised to include one or more branches of production or services. According to the degree of the concentration of production and the effective size of the enterprise that corresponds to the character of production and consumption, every branch of production is organised either in one or more enterprises. In such cases where one industrial branch of production is organised into a larger number of enterprises an association of enterprises is established as connecting link between the enterprises and the ministry, which controls all enterprises of the production branch in question.

(25) A well tested principle in the organisation of state enterprises is the relative economic and legal independence of each enterprise. The enterprise is an independent legal person, it is subject to laws and commitments, has its own bank account, etc. The state allots to the enterprises to be used by them as they see fit the necessary basic means / premises, machines, etc./ and money, whereby current expenses are covered by the enterprise from the sale of its own products. The enterprise is materially interested in the fulfilling of the tasks set it by the economic plan in the achievement of the highest possible economic results. Wherever necessary the enterprise is further subdivided into works; these, however, are no longer independent economic units. A director appointed by the state organs is at the head of the enterprise.

(26) In non-productive branches as health, education, state administration and such like, basic units are organised as budget organisations that draw funds for their acitivities directly from the state budget according to the approved plan. Their incomes, as far as they exist, are not sufficient to cover expenses and are therefore paid directly into the state budget.

(27) Both forms of basic economic units that have been mentioned here can be found in the state sector of economy. In the cooperative sector which is dominant in agriculture in Czechoslovakia / in industry it represents only a small part / the basic economic unit is the cooperative. Considering the cocperative form of ownership, cooperatives are not managed by the state organs by a direct allocation of tasks as is the case of the state enterprises. The linking up of the cooperatives with the entire system of planned control is brought about on the basis of agreements between the state and the cooperatives. Besides, the development of the cooperatives is influenced by various forms of indirect control as is price and credit policy, etc.

(28) All organs of planned economy must form a complete, dovetailed organisational whole which makes it possible to detail the entire economic plan from the government down to the various basic economic units as well as its full realisation.

System of planning.

(29) As the economic plan is the basic and main instrument of planned control it is necessary to explain in somewhat greater detail the principles of method and organisation

underlying it, as found most effective in Czechoslovakia.

(30) First of all it must be pointed out that a whole number of various kinds of plans make up the system of planning, plans defined according to their duration or according to the organisational level of economy they concern. The basic plan through which the state controls the entire economic activity and which allots individual tasks to the enterprises for carrying out is the annual economic plan. Annual plans are naturally too short to clarify the conception of the development of the nation's economy, it is only possible by means of the annual plan to set tasks which must be carried out within the given year to ensure the laid-down long-term conception of development.

(31) It is the task of the long-term plans to elucidate and lay down the conception of the development of national economy, the basic economic and political aims of the state such as changes in the structure of the national economy, industrialisation of the country, distribution of the forces of production, increase in the standard of living of the people and long-term trends in the development of economy altogether. In Czechoslovakia the practice of two-grade progress has been accepted in long-term planning. The direct basis for the drawing up of the annual plans are plans covering a period of several years / usually five /, which are the basic form of long-term planning. These plans make it possible to determine greater changes in the structure of the national economy and a more basic program in the increase of the living standard, in cultural and health care which simultaneously makes it possible to put before the people concrete aims to be reached in no distant time. Several-year plans covering the same period of time are also of considerable importance for economic cooperation with other countries having a planned economy. Several-year plans take the form of complex economic plans detailed right down to the enterprises in the same way as annual plans, but they lay down tasks in a more global and less concrete form. The annual plans then express the tasks of the several-year plans more concretely and define them more exactly.

(32) To ensure a smooth development for longer periods of time and always proceeding from the firm basic conception of the long-term development of national economy, it is also necessary to draw up long-term plans covering 15 to 20 years. A long-term plan does not take the form of tasks set various enterprises, it is rather a scientific and technical study covering long-term trends in the change of the structure of the national economy and in the speed of development of the various sectors.

(33) On the basis of the state economic plans /whether annual or covering several years/ the plans for the various organisational levels / ministries, national committees, enterprises, etc./ of economy are drawn up. They are usually worked out in greater detail than the economic plan, but must link up with it under all conditions. The detailing of the economic plan into the enterprises and its realisation is ensured by a system of indexes approved by the government and detailed through the ministries or national committees right down to the enterprises. By these indexes the production tasks / total volume of

production and some special tasks / are set for the enterprises, the quality indexes under which the production tasks are to be fulfilled / height of productivity of labour per worker, costs per unit of production, etc./, and the limits of means allotted to ensure production / man power, most important raw materials and money /. In the case of the most important products the producer is also instructed to which consumer enterprises and in what quantity he is to deliver his products. Apart from these indicators approved by the government the national economic plan contains to a wide extent calculations and basic material on the basis of which the financial balancing and the entire proportionality of the plan is ensured. Within the framework of the fixed indicators of the economic plan the enterprises and the ministries or national committees are then empowered to work out their plans in greater detail according to concrete local conditions.

(34) In this concise exposition of the system of planned control in Czechoslovakia it is necessary to mention in greater detail the process of drawing up the economic plan. The first stage of drawing up every / annual or several-year/ plan is the working out of provisions for the drawing up of the plan expressing the aims of the economic policy of the state in the given period and the basic tasks, which have to be achieved by the plan. The provisions approved by the government / in the case of a several-year plan by the highest political organs / and drawn up in detail even for the enterprises become the binding basis for the drawing up of the draft plan. The draft plan comes from the enterprises, is compiled at the superior ministries or national committees and finally at the State Planning Commission. In the drawing up of the draft plan deliveries of products among the enterprises are clarified during discussions between supplier and consumer organisations to ensure the maximum harmonization of the plan of interconnected enterprises and ministries. The full balancing of the entire plan must be ensured by the State Planning Commission by harmonizing the draft plans of the various ministries and by working out a complex all-state economic plan, which is then submitted to the government for approval. After the government's approval the plan is specified in detail to all enterprises and organisations as already mentioned before.

(35) To make it possible in the course of the fulfilment of the plan to eliminate partial disproportions arising out of the non-fulfilment or overfulfilment of the plan in various sectors of economy or through other circumstances that could not be foreseen in the drawing-up of the plan, a reserve is created in the plan. This means mostly a so-called balance-reserve, i.e. part of planned resources which are not distributed for use already within the plan, but only in the course of its realisation as necessary at any given moment.

(36) Finally it must be stressed that an essential presupposition for the plan to ensure the use of all resources of national economy and the maximum increase in the social productivity of labour and thus in a speedy development of national economy is, according to our experience, the wide participation of the working people in the drawing up and the

realisation of the plan. This is why the trade unions, national committees and other political organisations mobilise the working people to active participation in the solution of problems of development of economy in enterprises, cooperatives, in town and country-side. The rich experiences and the creative initiative of the working people, arising from the consciousness of the full agreement of their interests with the interests of the development of the economy make possible the fulfilment of courageous plans for a speedy development of the economy of the Czechoslovak Socialist Republic.